

Message Text

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ACTION EUR-12

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SUBJECT: US-SOVIET CIVIL AVIATION RELATIONS

REF: STATE 015759

WHILE EVEN AN INTERIM CIVIL AIR AGREEMENT WOULD CONTRIBUTE TO IMPROVEMENT IN BILATERAL RELATIONS AND BOLSTER PAN AMERICAN REVENUES, WE ARE SOMEWHAT SURPRISED, JUDGING FROM REFTEL, THAT DEPARTMENT MIGHT BE CONSIDERING DROPPING LONG HELD POSITION THAT REVENUES FROM REGULAR FREQUENCIES AND CHARTERS CANNOT BE EQUATED. WE ARE A CONCERNED THAT ONCEHAVING PURCHASED AN UNDERSTANDING ON CHARTER FLIGHTS BY THE CONCESSION OF A SECOND TERMINAL (WASHINGTON), WE NOW SEEM PREPARED TO BUY AN AMBITIOUS SUMMER CHARTER PROGRAM FOR PANAM BY AN IMBALANCE OF TWO REGULAR FREQUENCIES. EVEN THOUGH THIS WOULD BE AN INTERIM AGREEMENT, ONCE HAVING CONCEDED THE PRINCIPLE OF LINKING CHARTER AND REGULAR FREQUENCY REVENUES, WE DOUBT THEY COULD EVER BE DECOUPLED. AS WE SEE IT, VIRTUALLY ALL CHARTERS - WHETHER AMERICAN OR AEROFLOT - WOULD BE OF U.S. ORIGIN.

2. WE ARE AWARE OF PAN AMERICAN'S INTEREST IN THIS SORT OF BARGAIN. LOCAL PAA REP ON JANUARY 4 SUPPLIED US WITH TELEGRAM FROM HIS NEW YORK HEADQUARTERS, OUTLINING PROPOSAL
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FOR TWELVE MONTH AGREEMENT WHICH MESSAGE SAID PAN AMERICAN REPRESENTATIVES PROPOSED TO STATE/CAB ON DECEMBER 20, 1977. ALTHOUGH MESSAGE FROM NEW YORK JUSTIFIED WILLINGNESS TO ACCEPT IMBALANCE IN FREQUENCIES BY REFERENCE TO PANAM EARNINGS FROM NON-AGREED SERVICES, WE WERE STRUCK ON THAT OCCASION BY LOCAL PAA REP'S WILLINGNESS TO DROP DISTINCTION BETWEEN CHARTER MARKET AND THAT FOR REGULAR SERVICES. PANAM

REP ARGUED THAT WITHOUT SUCH CONCESSIONS, THERE COULD BE NO SUBSTANTIAL PAN AMERICAN CHARTER PROGRAM THIS SUMMER.

3. IF DEPARTMENT IS PREPARED TO PROPOSE INTERIM AGREEMENT ALONG LINES SUGGESTED REFTTEL, WE BELIEVE IT IS ESSENTIAL THAT SOVIETS BE COMMITTED TO ACCEPT CHARTERS FROM ALL AMERICAN CARRIERS AS STYLES TOLD SAMORUKOV AND NOT MERELY FROM PAN AMERICAN. AS WE SEE IT, SOVIETS WOULD BE ONLY TOO HAPPY TO DEVELOP EXCLUSIVE ARRANGEMENT WITH PAA, WHICH WOULD PRESUMABLY BE SATISFACTORY TO THE LATTER AS WELL, BUT THEY WOULD FEEL FREE TO REJECT CHARTER APPLICATIONS FROM OTHER U.S. CARRIERS. UNLESS SOVIET AGREEMENT TO ACCEPT ALL BONIFIDE AMERICAN CHARTER REQUESTS IS CLEARLY STIPULATED IN INTERIM AGREEMENT, THERE IS LITTLE CHANCE THAT ANY WILL BE PERMITTED. EVEN SO, SOVIETS MAY BE TEMPTED TO TRY TO KEEP OTHER CHARTERS TO MINIMUM ON ASSUMPTION THAT WE WOULD BE DISINCLINED TO RETALIATE (I.E., BY REDUCING FREQUENCIES) AND THEREBY JEOPARDIZE AN ARRANGEMENT IN WHICH PAA TOO WOULD HAVE A VESTED INTEREST.

4. WE FEEL DEPARTMENT SHOULD NOT ABANDON DISTINCTION BETWEEN CHARTERS AND REGULAR FREQUENCIES IN A SITUATION WHERE THE CHARTER MARKET IS NEARLY EXCLUSIVELY OF U.S. ORIGIN. WHILE WE HAVE LONG BELIEVED IT WILL BE NECESSARY TO TAKE SOVIETS VIEWS INTO ACCOUNT IN OVERALL REVENUE FORMULA, WE DO NOT BELIEVE THAT THIS SHOULD BE ON A ONE TO ONE BASIS. FORMULA OF FOUR FREQUENCIES AND 30 CHARTERS FOR TWO FREQUENCIES AND 90 TO 100 CHARTERS LIMITED OFFICIAL USE

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COMES CLOSE TO DOING THIS. LIKELIHOOD OF "EXTRA SECTIONS" FOR AEROFLOT, WHICH PAN AM WOULD HARDLY WISH TO DENY, MIGHT EVEN TIP NUMERICAL BALANCE IN SOVIET FAVOR. WE WOULD URGE THAT DEPARTMENT GIVE THIS QUESTION ADDITIONAL CONSIDERATION, PERHAPS LEAVING SPECIFIC ROOM FOR A SUBSTANTIAL NUMBER OF ADDITIONAL U.S. CHARTERS, WHETHER BY PAA OR ANOTHER U.S. CARRIER, AND/OR BY PROVISIO THAT AT LEAST ONE-THIRD OF SOVIET CHARTERS MUST BE DRAWN FROM SOVIET MARKET. REFERENCE IN PRINCIPLE TO WIDE-BODIED JET AIRCRAFT, EVEN THOUGH DESIRABLE, WOULD NOT IN ITSELF PRESERVE BALANCE, IN OUR VIEW, BECAUSE WHEN TIME COMES TO INTRODUCE SUCH AIRCRAFT INTO REGULAR SERVICE, SOVIETS WILL PRESUMABLY ASK STILL GREATER DISCREPANCY IN NUMBER OF AUTHORIZED REGULAR FREQUENCIES. FOR EXAMPLE, SOVIETS MIGHT WANT TO EXTRA FREQUENCIES TO COMPENSATE FOR CHARTERS AND AN ADDITIONAL ONE TO COMPENSATE FOR THE WIDE-BODIES. MATLOCK

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